

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Caspian-Gastra Fire Authority	County Iron
Fiscal Year End 06/30/06	Opinion Date 12/07/06	Date Audit Report Submitted to State 12/20/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☒ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	The primary government has no issues to report.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DS Rostagno CPA P.C.		Telephone Number 906-265-1040	
Street Address 101 West Maple Street		City Iron River	State MI
		Zip 49935	
Authorizing CPA Signature 	Printed Name Dianne S. Rostagno, CPA		License Number A245771

CASPIAN-GAASTRA FIRE AUTHORITY

**Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Governing Board
Caspian-Gaastra Fire Authority
P.O. Box 530
Caspian, Michigan 49915

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Caspian-Gaastra Fire Authority**, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Governing Board, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the Board's legally separate component unit. Accounting principles generally accepted in the United State of America require that the financial data for this component unit to be reported with the financial data of the Board's primary government unless the Board also issues financial statements for the financial reporting entity that include the financial data for its component units. The Board has not issued such reporting entity financial statements.

In our opinion, because of omission of the discretely presented component unit as described above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the **Caspian-Gaastra Fire Authority** as of June 30, 2006, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting the component unit as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the **Caspian-Gaastra Fire Authority**, Caspian, Michigan, as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respect, the respective financial position of the governmental activities and each major fund of the **Caspian-Gaastra Fire Authority**, Caspian, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 07, 2006 on our consideration of the **Caspian-Gaastra Fire Authority's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 7 through 14 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Caspian-Gaastra Fire Authority's** basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more prominent.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

December 07, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CASPIAN-GAASTRA FIRE AUTHORITY
ONE MUSEUM DRIVE
P.O.BOX 350
CASPIAN, MI 49915

The management of the **Caspian-Gaastra Fire Authority** provides this narrative overview and analysis of the financial activities of the **Caspian-Gaastra Fire Authority** for the fiscal year ended June 30, 2006. As readers, you are encouraged to read this discussion and analysis in conjunction with the Authority's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Authority is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The Fire Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Fire Authority are governmental funds.

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Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as balances of spend-able resources available at the end of the fiscal year. This information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The Fire Authority maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and debt service fund, both of which are considered major funds.

The Fire Authority adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, and is included in the "Required Supplementary Information" section of this document.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund as presented in the governmental fund financial statements.

**CASPIAN-GAASTRA FIRE AUTHORITY
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Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Fire Authority, assets exceeded liabilities by \$ 148,181 at June 30.

By far, the largest portion of the Authority's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2006, the Authority reported \$ 136,015 in net assets invested in capital assets net of related debt.

Summary of Net Assets

In a condensed format, the following is a comparative summary of the Authority's net assets at June 30, 2006 and June 30, 2005:

	June 30, 2006 Governmental <u>Activities</u>	June 30, 2005 Governmental <u>Activities</u>
<u>Assets</u>		
Current and other assets	\$ 12166	\$ 15932
Capital assets, net	<u>299392</u>	<u>312514</u>
Total Assets	\$ 311558	\$ 328446
<u>Liabilities</u>		
Long-term liabilities	\$ 149390	\$ 155126
Other liabilities	<u>13987</u>	<u>15287</u>
Total Liabilities	\$ 163377	\$ 170413

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Government-wide Financial Analysis

Summary of Net Assets (Continued)

	June 30, 2006 Governmental <u>Activities</u>	June 30, 2005 Governmental <u>Activities</u>
<u>Net Assets</u>		
Invested in capital assets, net of related Debt	\$ 136015	\$ 143401
Restricted for Debt Services	1166	1166
Unrestricted	<u>11000</u>	<u>13466</u>
Total Net Assets	\$ 148181	\$ 158033

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Government-wide Financial Analysis

For governmental activities, net assets decreased by \$ 4,662 during the year.

The following represents the comparative changes in net assets for the Authority's governmental funds for the fiscal years ended June 30, 2006 and June 30, 2005:

	June 30, 2006	June 30, 2005
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<u>REVENUES</u>		
<i>Program Revenues</i>		
Charges for services	\$ 18000	\$ 18658
Operating grants and contributions	13987	29621
Capital grants and contributions	12150	0
<i>General Revenues</i>		
Investment earnings	1221	12
Other	<u>1426</u>	<u>2456</u>
TOTAL REVENUES	\$ 46784	\$ 50747
<u>EXPENSES</u>		
Administration	\$ 3243	\$ 3446
Fire Protection	18425	16904
Debt Service		
Interest and fees	8251	9022
Depreciation	<u>26717</u>	<u>26037</u>
TOTAL GOVERNMENTAL EXPENSES	\$ 56636	\$ 55409
Increase (Decrease) in Net Assets	(9852)	(4662)
Net Assets, Beginning of Year	158033	163860
Prior Period Adjustment	<u>(0)</u>	<u>(1165)</u>
Net Assets, End of Year	\$ <u>148181</u>	\$ <u>158033</u>

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Government-wide Financial Analysis

Governmental Activities

Operating grants and contributions were \$ 13,987, or approximately 30 percent of total governmental revenues.

Charges for services, including operating assessments, were \$ 18,000, or approximately 38% of governmental revenues.

The Fire Authority expended \$ 56,636 on governmental programs and services. Except for depreciation, the largest expense category was incurred for fire protection, which totaled \$ 18,425, or approximately 32.5 percent of total expenditures. Interest on long-term debt comprised \$ 8,251, or approximately 14.5 percent of total expenditures.

Financial Analysis of the Governmental Funds

As previously noted, the Fire Authority uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Fire Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. This information is useful in assessing the Authority's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Authority's governmental funds reported combined ending fund balances of \$ 12,166 of which \$11,000 is unreserved and is available for spending at the government's discretion.

The Authority's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the Authority ended the fiscal year with revenues very close to both the original and final budgetary projections. Total expenditures were slightly lower than the final budget, but higher than the original projection. At fiscal year end, the fund balance was higher than the final amended budget projections, but lower than originally budgeted.

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Governmental Funds (Continued)

Revenues – Budget vs Actual for the Fiscal Year Ended June 30, 2006:

	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual vs Original Budget</u>	<u>Revenues Variance Actual vs Final Budget</u>
General Fund	\$ 33903	\$ 31512	\$ 32797	\$ (1106)	\$ 1285

Expenditures – Budget vs Actual for the Fiscal Year Ended June 30, 2006:

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 33903	\$ 35330	\$ 35263	\$ (1360)	\$ 67

General fund financial and budgetary highlights of the fiscal year include:

- * Local unit assessments and intergovernmental grants were exactly as projected. Interest earnings were just \$ 2 more than estimated in the final budget.
- * Expenditures in total for the general fund were \$ 35,263, just \$ 67 less than the final amended budget of \$ 35,330.

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Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, for its governmental activities as of June 30, 2006 is \$ 299,392. The investment in capital assets includes land, buildings, fire truck, and equipment, protective gear, communications equipment, and other safety equipment.

During the fiscal year ended June 30, 2006, the Authority purchased 12-unit mobile air cylinders at a total cost of \$13,595. This was funded with a federal grant in the amount of \$12,150, with a local match of \$1,445.

Long-term debt

As of June 30, the Fire Authority had total debt outstanding of \$ 163,377. Of this amount, \$13,987 is due and payable within the next 12 months.

The following areas highlight the Fire Authority's priorities and accomplishments:

Providing the Fire Authority with the best state-of-the-art equipment. To this end, the Fire Authority has been very active with grant applications, since municipal funding is limited. They have been successful in the past several years.

Future plans include:

Continuation with the improvement of the Fire Authority's equipment and performance programs.

Requests for Information

This financial report is designed to provide a general overview of the Fire Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Caspian-Gaastra Fire Authority
P.O. Box 530
Caspian, Michigan 49915

BASIC FINANCIAL STATEMENTS

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Investments (Note C)	\$ 6,421
Accounts Receivable	2,266
Prepaid Insurance	3,479
Total Current Assets	<u>12,166</u>
<u>Noncurrent Assets</u>	
Capital Assets, Net (Note H)	<u>299,392</u>
Total Noncurrent Assets	299,392
TOTAL ASSETS	\$ 311,558
 <u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Deferred Revenue	-
Bonds/Notes Payable, Due within one year (Note I)	<u>13,987</u>
Total Current Liabilities	13,987
 Noncurrent Liabilities	
Bonds/Notes Payable (Note I)	<u>149,390</u>
Total Noncurrent Liabilities	149,390
TOTAL LIABILITIES	\$ 163,377
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	136,015
Restricted for Debt Services	1,166
Unrestricted	<u>11,000</u>
TOTAL NET ASSETS	\$ 148,181

The notes to the financial statements are integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Functions/Programs	PROGRAM REVENUES				Net(Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>
Primary Government -					
Public Safety:					
Administration	\$ 3,243	\$ -	\$ -	\$ -	\$ (3,243)
Fire Protection	18,425	18,000		12,150	11,725
Interest on Long-Term Debt	8,251		13,987		5,736
Depreciation (Unallocated)	26,717	-	-	-	(26,717)
Total Governmental Activities	\$ 56,636	\$ 18,000	\$ 13,987	\$ 12,150	\$ (12,499)
 <u>General Revenues</u>					
Miscellaneous Income					1,426
Interest and Investment Earnings					1,221
Total General Revenues					2,647
Change in Net Assets					(9,852)
Net Assets - Beginning of year					158,033
Net Assets - End of year					\$ 148,181

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

GOVERNMENTAL FUNDS - BALANCE SHEET

JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	\$ 6,421	\$ -	\$ 6,421
Accounts receivable	1,100	1,166	2,266
Prepaid Insurance	<u>3,479</u>	<u>-</u>	<u>3,479</u>
TOTAL ASSETS	<u>\$ 11,000</u>	<u>\$ 1,166</u>	<u>\$ 12,166</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Deferred Revenue	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-	-	-
<u>FUND BALANCES</u>			
Reserved for Debt Service	-	1,166	1,166
Unreserved and undesignated	<u>11,000</u>	<u>-</u>	<u>11,000</u>
TOTAL FUND BALANCES	11,000	1,166	12,166
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,000</u>	<u>\$ 1,166</u>	<u>\$ 12,166</u>

The notes to the financial statements are integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Fund Balances - Total Governmental Funds	\$ 12,166
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of capital assets is:	405,878
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Accumulated depreciation is:	(106,486)
------------------------------	-----------

Long term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable	(163,377)
---------------	-----------

Other long term assets not available to pay current period expenditures therefore deferred in the funds

-

Accrued interest is not included as a liability in governmental funds

-

Amounts due to other non-governmental funds are not reported in the government-wide financial statements

-

Total Net Assets - Governmental Activities	<u>\$ 148,181</u>
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The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**GOVERNMENTAL FUNDS - STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES**

YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUE</u>			
Local Unit Assessments	\$ 18,000	\$ 13,987	\$ 31,987
Use of money and property	1,221	-	1,221
Miscellaneous	1,426	-	1,426
Intergovernmental	<u>12,150</u>	<u>-</u>	<u>12,150</u>
TOTAL REVENUE	\$ 32,797	\$ 13,987	\$ 46,784
<u>EXPENDITURES</u>			
Current Operating:			
Administration	3,243	-	3,243
Public Safety	18,425	-	18,425
Debt Service			-
Principal	-	5,736	5,736
Interest and Fees	-	8,251	8,251
Capital Outlay	<u>13,595</u>	<u>-</u>	<u>13,595</u>
TOTAL EXPENDITURES	\$ 35,263	\$ 13,987	\$ 49,250
 Excess (Deficiency) of Revenues Over Expenditures	 (2,466)	 -	 (2,466)
 Net Change in Fund Balances	 (2,466)	 -	 (2,466)
 FUND BALANCE - BEGINNING OF YEAR	 <u>13,466</u>	 <u>1,166</u>	 <u>14,632</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 11,000</u>	 <u>\$ 1,166</u>	 <u>\$ 12,166</u>

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

GOVERNMENTAL FUNDS**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***YEAR ENDED JUNE 30, 2006***Net Change in Fund Balances - Total Governmental Funds** **\$ (2,466)**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense

(26,717)

Capital Outlay

13,595

Total

(13,122)

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

-

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

5,736

Increases Decreases in compensated absences are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

-

Loan proceeds are reported as other financing sources in the governmental
funds, but are not reported in the statement of activities

-

Change in Net Assets of Governmental Activities**\$ (9,852)**

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CASPIAN-GAASTRA FIRE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **Caspian-Gaastra Fire Authority**, Caspian, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **Caspian-Gaastra Fire Authority** was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the cities of Caspian and Gaastra. The **Caspian-Gaastra Fire Authority** was formed on February 01, 2001, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each respective municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

The criteria established by GASB Statement 14, The Financial Reporting Entity, is used to determine the primary government unit and the component units to be included in the financial reporting entity.

This Statement describes the characteristics of a primary government unit, which includes a separately elected governing board, legally separate government possessing corporate power and separate legal standing, and fiscal independence. GASB 14 also provides criteria for defining the component unit, based on the fundamental concept of accountability.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the local unit that it is, in substance, the same as the local governmental unit.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government.

This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

On the basis described above, there are no blended component units whose financial statements are included in the financial statements of the **Caspian-Gaastra Fire Authority**. However, the financial statements of the *Caspian-Gaastra Volunteer Fire Department* should be reported as a discretely presented component unit. This financial information has not been included in the financial statements of the **Caspian-Gaastra Fire Authority**.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

There are no jointly governed organizations to be reported.

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED ORGANIZATIONS (Continued)

There are no related organizations to be reported.

BASIS OF PRESENTATION

The Fire Authority follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements (Continued)

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Annual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (governmental activities).

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Fire Authority and many other governments revise their original budgets over the course of the year for a variety of reasons.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Fire Authority as a whole) and fund financial statements. The reporting model focus is on both the Fire Authority as a whole and the fund financial statements, including the major individual funds of the governmental categories.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental. In the government-wide Statement of Net Assets, the governmental column (a) is presented, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both government-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Fire Authority generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The Fire Authority may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety) that is otherwise being supported by general government revenues (interest and investment earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety).

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Program revenues include 1) charges to customers for fire protection and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported as general revenues. The Fire Authority does not allocate indirect expenses. When applicable, the operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Fire Authority are organized on the basis of funds.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The following is a brief description of the specific funds used by the Fire Authority:

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

GOVERNMENTAL FUNDS (Continued)

The acquisition, use, and balances of the Authority's expendable financial resources and the related current liabilities are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from assessments from participating municipalities.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

GOVERNMENTAL FUNDS (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Both the General Fund and the Debt Service Fund are major funds for government-wide reporting purposes.

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements.

Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statement of Net Assets and Statement of Activities are accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The Statement of Net Assets and Statement of Activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Debt Service funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest and long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the Fire Authority's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The Fire Authority pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Fire Authority classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General Fund. On an annual basis the charges are reviewed for collectibility.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year-end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the Fire Authority for future expenditures.

BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**BUDGETS AND BUDGETARY ACCOUNTING
(Continued)**

The budget basis of accounting does not differ significantly from the modified accrual basis to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. Unexpended appropriations lapse at fiscal year-end.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General Fund and as assets in the governmental-wide statements to the extent the Fire Authority's threshold of \$500 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Buildings20 - 30 years

Infrastructure 10 - 65 years

Furniture and Other

Equipment 5 - 20 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES

There are no compensated absences to be reported.

POST-EMPLOYMENT BENEFITS

There are no post-employment benefits for the **Caspian-Gaastra Fire Authority**.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE B – INTER-FUND ACTIVITIES

INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

On June 30, 2006, the Fire Authority had no inter-fund receivables/payable.

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended June 30, 2006, there were no inter-fund transfers.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Fire Authority's funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

PRIMARY GOVERNMENT

On June 30, 2006, the carrying value of the Fire Authority's deposits (Primary Government) was \$ 6,421 and is comprised of cash and deposits reflected in the following funds:

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

<u>Governmental Funds</u>		
General Fund	\$	6421
Debt Service Fund		<u>0</u>
Total Governmental Funds	\$	6421

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the Fire Authority or its agent in the Fire Authority's name.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Fire Authority's name.

Category 3

Deposits which are not collateralized or insured.

Based on these levels of risk, the Fire Authority's cash deposits (Primary Government) are classified as follows:

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>	<u>Total</u>
Cash and Deposits	\$ 6421	\$ -0-	\$ -0	\$ 6421

INVESTMENTS

The Fire Authority's investments are categorized below to give an indication of the level of risk assumed at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the Fire Authority or it's agent in the Fire Authority's name.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Fire Authority's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Fire Authority's name.

The Fire Authority has no investments as reflected below:

<u>Investment Type</u>	\$	<u>Category 1</u>	\$	<u>Category 2</u>	\$	<u>Category 3</u>	\$	<u>Carrying Value</u>	\$	<u>Market Value</u>
		-0-		-0-		-0-		-0-		-0-
Total Investments	\$	<u>-0-</u>	\$	<u>-0-</u>	\$	<u>-0-</u>	\$	<u>-0-</u>	\$	<u>-0-</u>

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Fire Authority to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The Fire Authority has adopted an investment policy, allowing for all types of deposits and investments listed above. The Fire Authority's deposits and investments are in compliance with its investment policy.

NOTE D - PENSION PLAN

The Fire Authority does not maintain a pension plan.

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The **Caspian-Gaastra Fire Authority's** actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the **Caspian-Gaastra Fire Authority** were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

There were no expenditures in excess of the amounts appropriated for the fiscal year ended June 30, 2006.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE F - ACCUMULATED FUND DEFICITS

At June 30, 2006, the Fire Authority had no fund balance/retained earnings deficit in any fund.

NOTE G - RISK MANAGEMENT

The Fire Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fire Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Fire Authority.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2006:

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Balance June 30, <u>2005</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2006</u>
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Capital Assets Not Being Depreciated	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other Capital Assets				
Buildings	164886	-0-	-0-	164886
Furniture and Other Equipment	<u>227396</u>	<u>13595</u>	<u>-0-</u>	<u>240991</u>
Total Other Capital Assets	\$ 392282	\$ 13595	\$ -0-	\$ 405877
Less Accumulated Depreciation For:				
Buildings	(14840)	(3298)	-0-	(18138)
Furniture and Other Equipment	<u>(64928)</u>	<u>(23419)</u>	<u>-0-</u>	<u>(88347)</u>
Total Accumulated Depreciation	(79768)	(26717)	-0-	(106485)
Other Capital Assets, Net	312514	(13122)	-0-	299392
TOTALS	\$ <u>312514</u>	\$ <u>(13122)</u>	\$ <u>-0-</u>	\$ <u>299392</u>

Depreciation was charged to governmental functions as unallocated.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT

The following is a summary of the primary government's long-term debt obligation at June 30, 2006:

	<u>July 01, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>NOTES PAYABLE</u>				
<i>Wells Fargo Bank</i>				
#000-00-0001-8	\$ 144113	\$ -0-	\$ 5736	\$ 138377
<i>City of Caspian</i>	18040	-0-	-0-	18040
<i>City of Gaastra</i>	<u>6960</u>	<u>-0-</u>	<u>-0-</u>	<u>6960</u>
Totals	\$ <u>169113</u>	\$ <u>-0-</u>	\$ <u>5736</u>	\$ <u>163377</u>

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

NOTES PAYABLE -
WELLS FARGO BANK FIRE HALL LOAN # 000-00-
0001-8

On April 11, 2001, the **Caspian-Gaastra Fire Authority** entered into an installment agreement with the Wells Fargo Bank for the purchase of the Fire Hall in the amount of \$164,885.86, bearing interest at the rate of 5.75% per annum, payable in 240 monthly payments of \$1,165.59 beginning May 11, 2001, with all subsequent payments due on the eleventh day of each month thereafter.

The principal balance of the note on June 30, 2006 was \$138,377.

CITY OF CASPIAN

On January 5, 2004, the City of Caspian paid \$ 18,039.88 to Republic Bank on behalf of the **Caspian-Gaastra Fire Authority**. This is a partial payment toward the balloon payment on the Fire Truck loan # 5003000686. This amount is payable to the City of Caspian on June 30, 2008.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

CITY OF GAASTRA

On October 08, 2004, the City of Gaastra paid \$ 6,960.00 to the Republic Bank on behalf of the **Caspian-Gaastra Fire Authority**. This is a partial payment toward the balloon payment on the Fire Truck loan # 5003000686. This amount is payable to the City of Gaastra on June 30, 2008.

NOTE J - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE J – RELATED PARTY TRANSACTIONS (CONTINUED)

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure.

CASPIAN-GAASTRA FIRE AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE K - SUBSEQUENT EVENTS (CONTINUED)

They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2006, there were no subsequent events that would have a significant effect on the Fire Authority's operations.

NOTE L - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported for the **Caspian-Gaastra Fire Authority** for the fiscal year ended June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

CASPIAN-GAASTRA FIRE AUTHORITY

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<u>REVENUE</u>			
Local Unit Assessments	\$ 18,000	\$ 18,000	\$ 18,000
Use of money and property	16	19	21
Federal Revenue	12,150	12,150	12,150
Charges for Services	1,000	-	-
Other Revenue	<u>2,737</u>	<u>1,343</u>	<u>2,626</u>
TOTAL REVENUES	33,903	31,512	32,797
<u>EXPENDITURES</u>			
Administration	3,448	3,243	3,243
Public Safety	16,956	18,492	18,425
Capital Outlay	<u>13,499</u>	<u>13,595</u>	<u>13,595</u>
TOTAL EXPENDITURES	33,903	35,330	35,263
NET CHANGE IN FUND BALANCE	-	(3,818)	(2,466)
FUND BALANCE - BEGINNING OF YEAR	<u>13,466</u>	<u>13,466</u>	<u>13,466</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 13,466</u></u>	<u><u>\$ 9,648</u></u>	<u><u>\$ 11,000</u></u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CASPIAN-GAASTRA FIRE AUTHORITY

GENERAL FUND - FUND BALANCE

JUNE 30, 2006

ASSETS

Cash	\$ 6,421
Accounts Receivable	1,100
Prepaid Insurance	<u>3,479</u>
TOTAL ASSETS	<u>\$ 11,000</u>

FUND EQUITY

Fund Balance	<u>11,000</u>
TOTAL FUND EQUITY	<u>\$ 11,000</u>

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE**

ACTUAL AND BUDGET
FISCAL YEAR ENDED JUNE 30, 2006

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Assessments	\$ 18,000	\$ 18,000	\$ -
Rent	1,200	1,200	-
Interest	21	19	2
Miscellaneous	<u>1,426</u>	<u>143</u>	<u>1,283</u>
Total Local Sources	\$ 20,647	\$ 19,362	\$ 1,285
<u>Federal Sources</u>			
Federal Grant	<u>12,150</u>	<u>12,150</u>	<u>-</u>
Total Federal Sources	12,150	12,150	-
TOTAL REVENUES	\$ 32,797	\$ 31,512	\$ 1,285
<u>EXPENDITURES</u>			
<u>PUBLIC SAFETY:</u>			
Contracted Services	3,926	3,926	-
Treasurer/Clerk Fees	1,500	1,500	-
Legal	62	62	-
Audit	1,681	1,681	-
Liability Insurance	6,541	6,600	59
Workers Compensation	777	771	(6)
Supplies	150	155	5
Utilities	5,532	5,541	9
Maintenance/Repair	241	241	-
Fees and Services	1,200	1,200	-
Capital Outlay	13,595	13,595	-
Miscellaneous	<u>58</u>	<u>58</u>	<u>-</u>
TOTAL EXPENDITURES	\$ 35,263	\$ 35,330	\$ 67
Excess of Revenues Over (Under) Expenditures	(2,466)	(15,968)	1,352
FUND BALANCE, JULY 1	<u>13,466</u>		
FUND BALANCE, JUNE 30	<u>\$ 11,000</u>		

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

DEBT RETIREMENT FUND – BALANCE SHEET

JUNE 30, 2006

ASSETS

Accounts Receivable

\$ 1,166

TOTAL ASSETS

\$ 1,166

FUND EQUITY

Fund Balance

1,166

TOTAL FUND EQUITY

\$ 1,166

The notes to the financial statements are an integral part of this report.

CASPIAN-GAASTRA FIRE AUTHORITY

**DEBT RETIREMENT FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

REVENUES

Assessments	<u>\$ 13,987</u>
TOTAL REVENUES	\$ 13,987

EXPENDITURES

LONG-TERM DEBT

Principal	5,736
Interest	<u>8,251</u>
TOTAL EXPENDITURES	\$ 13,987

Excess of Revenues Over (Under) Expenditures	-
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FUND BALANCE, JULY 1	<u>1,166</u>
FUND BALANCE, JUNE 30	<u>\$ 1,166</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Caspian-Gaastra Fire Authority
Caspian, Michigan 49915

We have audited the financial statements of the governmental activities and each major fund of the **Caspian-Gaastra Fire Authority**, as of and for the year ended June 30, 2006, which collectively comprise the **Caspian-Gaastra Fire Authority's** basic financial statements, and have issued our report thereon dated December 07, 2006. The report on the **Caspian-Gaastra Fire Authority** was qualified because the financial data for the *Caspian-Gaastra Volunteer Fire Department* (component unit) was omitted from the financial statement reporting, as required by generally accepted accounting principles in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Caspian-Gaastra Fire Authority's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

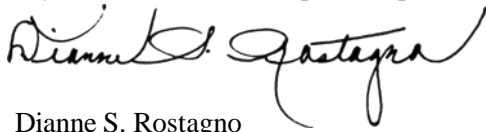
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Caspian-Gaastra Fire Authority's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" and last name "Rostagno" clearly distinguishable.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

December 07, 2006